# PACIFIC EXPLORATION & PRODUCTION CORP.

## *NEWS RELEASE*

### PACIFIC PROVIDES FIRST QUARTER 2017 OPERATIONAL UPDATE AND 2017 OUTLOOK & GUIDANCE

*Exploration & Development Capital Expenditures Expected to be $325 to $375 Million*

*Targeting 2017 Net Exit Production between 80,000 to 85,000 boe/d*

*Mid-March 2017 Production Approximately 75,000 boe/d*

*Optimization & Cost Reduction Programs Showing Incremental Value*

*Non-core Asset Divestment Strategy Reducing Commitments and Increasing Liquidity*

**Toronto, Canada, Wednesday, March 15, 2017** – Pacific Exploration & Production Corporation (TSX: PEN) ("**Pacific**" or the "**Company**") is pleased to announce its full year outlook and guidance for 2017 and first quarter 2017 operational update. All values in this news release are expressed in United States dollars and all production volumes are expressed net of royalties, unless otherwise stated.

Barry Larson, Chief Executive Officer of the Company commented:

"Pacific is off to a great start in 2017, a critical year as we shift the Company's focus and resources towards sustainable production through development drilling and growth through low-risk exploration. We are very pleased to see production increasing faster than we expected in the first two months of 2017. In addition, the Company's cash balance is approximately $90 million higher than previous forecasts, mainly through active management of government receivables and commitments. We will continue to look at ways to maximize the value of non-E&P related assets and reduce overall costs. Our constant goal is to improve margins and drive higher returns for invested capital so that our long-term growth can be self-sustaining."

**2017 Capital Expenditure Highlights:**

Pacific's highly disciplined 2017 exploration and development ("**E&D**") capital expenditures program emphasizes the Company's strategy to narrow its geographic focus and reduce organizational scale, complexity and cost while maximizing operating and cost efficiencies to ensure the Company has sustainable high margin production. The Company will continue to capture sustainable cost efficiencies and maintain operational momentum in Colombia and Peru. The E&D capital program will focus on production in an effort to reduce the impact of the declining rates of existing production. In 2017, estimated E&D capital expenditures are expected to be in the range of $325 to $375 million, an increase over 2016 expenditures ($161 million) which were significantly lowered as the Company focused on preserving cash through the restructuring process.

| 2017 Capital Expenditures* | |
|---|---|
| Maintenance & Development Drilling | $220 - $250 |
| Facilities & Infrastructure | $50 - $60 |
| Exploration Expenditures | $55 - $65 |
| **Total Capital Expenditure Budget** | **$325 - $375** |

*Brent Oil Price Assumption of $50 per barrel

The E&D capital program allocates $220 to $250 million to maintenance and development drilling. Approximately 53% will be allocated to light and medium oil development predominantly at the Guatiquia and Cubiro fields, 44% will be allocated to heavy oil development predominantly at the Quifa SW Field, and 3% will be allocated to other development in Colombia. Additionally, $50 to $60 million will be allocated to facilities and infrastructure expenditures, targeting fields that are either currently producing or under development. Lastly, $55 to $65 million will be allocated to exploration expenditures, mainly targeting lower risk appraisal wells. The Company has a robust portfolio of exploration prospects in Colombia and Peru and recognizes that these prospects have the potential to provide significant future production volumes and reserves.

The E&D capital program is being increased using a systematic, disciplined and prudent approach, which will be internally funded with cash on hand and free cash flow generation. Pacific is committed to allocating additional capital to exploration activities to drive future growth if the Company is able to generate excess cash flow.

**2017 Outlook & Guidance Highlights:**

- Year-end 2017 exit production volume is anticipated to be in the range of 80,000 to 85,000 boe/d. This includes an estimated 10,000 boe/d of production from Peru, which is contingent on the completion of the repair of the NorPeruano pipeline.

- Annualized general and administrative cost ("**G&A**") is anticipated to be in the range of $90 to $100 million, targeting a 45% to 50% reduction over 2016 expenses.

- Management is accountable for delivering a consolidated EBITDA of $250 to $275 million.

- The Company's assumptions described above are dependent on a base case average Brent oil price assumption for 2017 of $50/bbl and benchmark combined price differential in the range of $7.00/bbl to $7.50/bbl.

- Pacific's hedging strategy will continue in 2017, as the Company continues to enter into oil price risk management contracts to hedge volume to the 60% production maximum with a floor and ceiling strike prices of approximately $50/bbl to $58/bbl Brent, respectively.

**First Quarter 2017 Operational Update:**

Net production for the first quarter of 2017 is expected to be in the range of 72,000 to 75,000 boe/d, approximately 6% higher than the previous quarter. The 2017 drilling and production plan is consistent with expectations, leading to steadily increasing production volumes in the first two months of 2017. Mid-March 2017 production rate is approximately 75,000 boe/d of which 5,000 boe/d is attributable to Peru. Pacific expects combined realized prices (including natural gas production) in the first quarter to be in the range of $40 to $43/boe, comparable to the fourth quarter of 2016. Operating costs (including production, transportation and diluent) in the first quarter is expected to be in the range of $25 to $28/boe. Operating netbacks for the quarter are expected to be higher compared with the prior quarter, as the Company's field optimization and cost reduction programs start to show incremental value.

| | **1Q 2017 (Estimate)** | 4Q 2016 (Actual) | 3Q 2016 (Actual) | 2Q 2016 (Actual) | 1Q 2016 (Actual) |
|---|---|---|---|---|---|
| | | | | | |
| Net Oil Production (Mbbl/d) | **66 – 68** | 62 | 67 | 119 | 132 |
| Net Natural Gas Production (Mboe/d) | **6 – 7** | 7 | 8 | 9 | 10 |
| Total Net Production (Mboe/d) | **72 – 75** | 69 | 75 | 128 | 142 |
| | | | | | |
| Oil Price Realization ($/bbl) [2] | **$42 – $44** | $43.78 | $42.21 | $38.77 | $43.20 |
| Natural Gas Price Realization ($/boe) | **$21 – $23** | $25.12 | $27.43 | $24.44 | $25.29 |
| Combined Realization Price ($/boe)[1] | **$40 – $43** | $41.92 | $40.83 | $37.60 | $41.67 |
| | | | | | |
| Operating Costs[2] | **$25 – $28** | $27.98 | $24.54 | $20.53 | $21.35 |
| | | | | | |
| WTI NYMEX ($/bbl) | **$45.00** | $49.29 | $44.94 | $45.64 | $33.63 |
| BRENT ICE ($/bbl) | **$50.00** | $51.06 | $46.99 | $47.03 | $35.21 |

[1]Includes gains/losses from commodity price hedging. Sales prices are based on weighted average of daily volume sold.
[2]Includes production, transportation, and diluent cost.

**Optimization & Cost Reduction Achievements:**

Pacific emerged from its restructuring with a plan focused on capital discipline and value maximization. Headcount reduction initiatives have generated approximately $22 million in annualized savings during the first quarter of 2017. The Company's operations team has been able to prevent production declines due to successful drilling at Quifa and additional wells at Guatiquia and Corcel. Pacific's hedging strategy will continue in 2017, as the Company continues to enter into oil price risk management contracts to hedge volume to the 60% production maximum allowed under the indenture governing the $250 million 10% senior secured notes due 2021 and the $115 million letter of credit facility. Furthermore, the Company's cash position has significantly improved by approximately $90 million above expectations, mainly through active management of government receivables and commitments. Going forward the Company will continue to focus on safeguarding cash by maintain this active management approach.

Pacific has agreed to sell certain interests in the Caguan-Putumayo basin to Amerisur Resources Plc for total cash proceeds of $4.85 million. The interests include 1) a 60% working interest in the Put-9 block; 2) a 58% working interest in the Mecaya block; 3) a 100% working interest in the Terecay block; and 4) a 50.5% working interest in the Tacacho block. In addition to cash consideration, Pacific will also receive a 2% overriding royalty interest ("**ORRI**") on production from the Terecay block and a 1.2% ORRI on production from the Put-9 block. By selling these interests, Pacific is eliminating $30 million in Agencia Nacional de Hidrocarburos ("**ANH**") commitments. Transaction closing is subject to approval by the ANH.

On March 13, 2017, the Superintendencia de Sociedades ("**Superintendencia**") issued a decision to conclude proceedings under Ley 1116 of 2006 in Colombia. Consequently, the Company will initiate the processes to lift all liens imposed by the mentioned judge, including the remaining $23.7 million held in a trust account previously ordered by the judge.

## Future Optimization Initiatives:

As previously announced, the Company is making continuous efforts to control G&A and all non-essential spending activities to eliminate inefficiencies. The Company continues to focus on this initiative for additional savings. Pacific is also deploying an optimization program company-wide to reduce costs associated with, among other things, production, transportation, and dilution. The Company has immediately identified optimization and cost reduction activities in the following areas:

- negotiating various pipeline transportation contacts to reduce take-or-pay commitments;
- reviewing water injection and treatment processes, Bicentenario pipeline transportation tariffs, field energy contracts and chemical treatment processes for additional cost savings;
- capitalizing on ANH initiatives to optimize exploration commitments;
- developing a strategy for reserve replacement and production growth;
- continuing to focus on divestitures to adjust its portfolio and provide additional liquidity; and
- continuing to review the broad set of upstream and midstream assets within the Company's portfolio with an emphasis on value-maximizing initiatives.

A lot of progress has been made to restructure the organization and drive the right culture internally; however, the Company recognizes that significant work remains to maximize value for all stakeholders.

## About Pacific:

*Pacific is a Canadian public company and a leading explorer and producer of natural gas and crude oil, with operations focused in Latin America. The Company has a diversified portfolio of assets with interests in more than 45 exploration and production blocks in various countries including Colombia, Peru and Belize. The Company's strategy is focused on sustainable growth in production & reserves and cash generation. Pacific is committed to conducting business safely, in a socially and environmentally responsible manner.*

*The Company's common shares trade on the Toronto Stock Exchange under the ticker symbol PEN.*

## Advisories:

***Cautionary Note Concerning Forward-Looking Statements***

*This news release contains forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of production, revenue, cash flow and costs, capital expenditures, reserve and resource estimates, potential resources and reserves and the Company's exploration and development plans and objectives) are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things: uncertainty of estimates of capital and operating costs, production estimates and estimated economic return; uncertainties associated with estimating oil and natural gas reserves; failure to establish estimated resources or* *reserves; volatility in market prices for oil and natural gas; fluctuation in currency exchange rates; inflation; changes in equity markets; perceptions of the Company's prospects and the prospects of the oil and gas industry in Colombia and the other countries where the Company operates or has investments as the result of the completion of the Company's comprehensive restructuring transaction or otherwise; uncertainties relating to the availability and costs of financing needed in the future; the uncertainties involved in interpreting drilling results and other geological data; and the other risks disclosed under the heading "Risk Factors" and elsewhere in the Company's annual information form dated March 14, 2017 filed on SEDAR at www.sedar.com. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.*

*This news release contains future oriented financial information and financial outlook information (collectively, "**FOFI**") (including, without limitation, statements regarding expected capital expenditures, G&A and consolidated EBITDA for the Company in 2017), and are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraph. The FOFI has been prepared by management to provide an outlook of the Company's activities and results, and such information may not be appropriate for other purposes. The Company and management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments, however, actual results of operations of the Company and the resulting financial results may vary from the amounts set forth herein. Any FOFI speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any FOFI, whether as a result of new information, future events or results or otherwise.*

*In addition, reported production levels may not be reflective of sustainable production rates and future production rates may differ materially from the production rates reflected in this press release due to, among other factors, difficulties or interruptions encountered during the production of hydrocarbons.*

***Non- GAAP Financial Measures***

*This report contains the following financial terms that are not considered in IFRS: Operating and Consolidated EBITDA, and Operating, Consolidated and Cash Netback. These non-IFRS measures do not have any standardized meaning, and therefore are unlikely to be comparable to similar measures presented by other companies. These non-IFRS measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These financial measures are included because management uses this information to analyze operating performance and liquidity. They are different from those measures disclosed in prior periods, reflecting the Company's new strategic focus on operational efficiency and capital discipline.*

*Management believes that Netback is a useful measure to assess the net profit after all the costs associated with bringing one barrel of oil to the market. It is also commonly used by the oil and gas industry to analyze financial and operating performances expressed as profit per barrel.*

- *Operating Netback represents realized price per barrel plus realized gain or loss on financial derivatives, less production costs, transportation cost and diluent cost, and shows how efficient the Company is at extracting and selling its product.*
- *Consolidated Netback represents Operating Netback plus the results from corporate investments such as the Company's pipeline investments that are in addition to oil and gas production and the take-or-pay tariffs paid on disrupted pipelines.*

- *Cash Netback represents Consolidated Netback less corporate cash expenses (general and administrative expenses and cash finance costs).*

*Management believes that EBITDA is a common measure used to assess profitability before the impact of different financing methods, income taxes, depreciation and impairment of capital assets and amortization of intangible assets.*

- *Operating EBITDA represents the operating results of the Company's primary business, excluding the effects of capital structure, other investments (infrastructure assets), non-cash items that depend on accounting policy choices, and one-time items that are not expected to recur.*
- *Consolidated EBITDA excludes items of a nonrecurring nature (one-time items), or that could make the period-over-period comparison of results from operations less meaningful, but includes results from the Company's other investments (infrastructure assets).*

***Boe Conversion***

*The term "boe" is used in this news release. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 5.7 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

*The Company's natural gas reserves are contained in the La Creciente and other blocks in Colombia. For all natural gas reserves in Colombia, boe's have been expressed using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Colombian Ministry of Mines and Energy. If a conversion standard of 6.0 Mcf: 1 bbl was used for all of the Company's natural gas reserves, this would result in a reduction in the Company's net 1P and 2P reserves of approximately 0.3 and 0.7 MMboe, respectively.*

***Definitions***

| | |
|---|---|
| Bcf | Billion cubic feet. |
| Bcfe | Billion cubic feet of natural gas equivalent. |
| bbl | Barrel of oil. |
| bbl/d | Barrel of oil per day. |
| boe | Barrel of oil equivalent. Boe's may be misleading, particularly if used in isolation. The Colombian standard is a boe conversion ratio of 5.7 Mcf:1 bbl and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. |
| boe/d | Barrel of oil equivalent per day. |
| Mbbl | Thousand barrels. |
| Mboe | Thousand barrels of oil equivalent. |
| MMbbl | Million barrels. |
| MMboe | Million barrels of oil equivalent. |
| Mcf | Thousand cubic feet. |
| Million Tons LNG | One million tons of LNG (Liquefied Natural Gas) is equivalent to 48 Bcf or 1.36 billion m3 of natural gas. |
| Net | Company working interest production after deduction of royalties. |

| | |
|---|---|
| Production | |
| Total Field Production | 100% of total field production before accounting for working interest and royalty deductions. |
| Gross Production | Company working interest production before deduction of royalties. |
| WTI | West Texas Intermediate Crude Oil. |

**FOR FURTHER INFORMATION:**

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